Published on *Adam Smith Institute* (http://www.adamsmith.org)

One easy step to a cost-free Living Wage [1]

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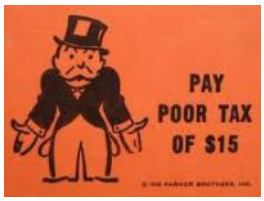

I was on Radio Five Live this morning in discussion with the Living Wage Foundation?s Director, Rhys Moore. The news hook was the story today about Whitehall cleaners demanding a pay rise [3], which I?m actually pretty sympathetic to ? I?d rather public money went on a slightly higher wage bill for cleaners than the considerably higher wages of the many, many unnecessary quango staff that the government pays for, the bloated public service, and so on.

I quite like the Living Wage Foundation ? they work to get businesses to *voluntarily* pay their low-paid staff more, and I understand that they don?t target small businesses. I?m glad that PR campaigns can be used to pressurise firms into raising low-paid staff?s wages and improving working conditions. That?s a feature of the free market that we should cherish.

Where I probably disagree with many Living Wage fans is that I think it would be a bad idea to make this mandatory. The price floor on wages that a minimum wage creates prices some people out of the market. if a saleswoman who could only sell £10,000 worth of cars a year wasn?t allowed to be hired for less than £11,000 a year, why would a car dealership hire her and make a £1,000 a year loss?

The people who tend to lose out are young people ? the term ?NEETs? (Not in Education, Employment or Training?) has entered policy wonk lexicon in recent years as youth unemployment has grown and grown. It is arguable about how much of this is down to minimum wage laws ? the empirical evidence is conflicted, and macroeconomic factors are obviously a significant component of the current problem.

Raising the minimum wage to a Living Wage level would do nothing for these people, and would push people at the margin into making a loss for their employers.

Nevertheless, low wages are a serious problem. As Tim Worstall has pointed out, the real travesty is that we take so much money in tax from low-wage workers. In fact, the difference between the after-tax Living Wage and the before-tax minimum wage is virtually equal to the tax burden imposed on minimum wage workers ? £12,154/year with the Living Wage, £12,160/year with an untaxed minimum wage. In other words, if minimum wage workers didn?t have to pay tax, they would be earning a Living Wage.

Taking these workers out of tax would square the circle of the Living Wage debate ? they would be earning a basic salary without more people being pushed out of employment. Indeed, by making work pay more, some people at the margin of earning benefits would be enticed into work ? a much-needed carrot to the government?s stick of reducing benefits.

It would only mean a small cut to government revenues ? the bottom 50% of taxpayers pay just 11% of taxes [4]. But, as I said this morning, if we can?t find additional savings in health, education, defence,

corporate welfare and civil service spending to reduce the burden on people at the bottom of the wage ladder, we need to have a serious think about our priorities.

It is indefensible that we tax the poorest workers while simultaneously tolerating politicians talking about the need to, somehow, improve their lot. There is a simple solution that should appeal to Living Wage supporters and free marketeers alike: stop taxing the poor, and stop it now.

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